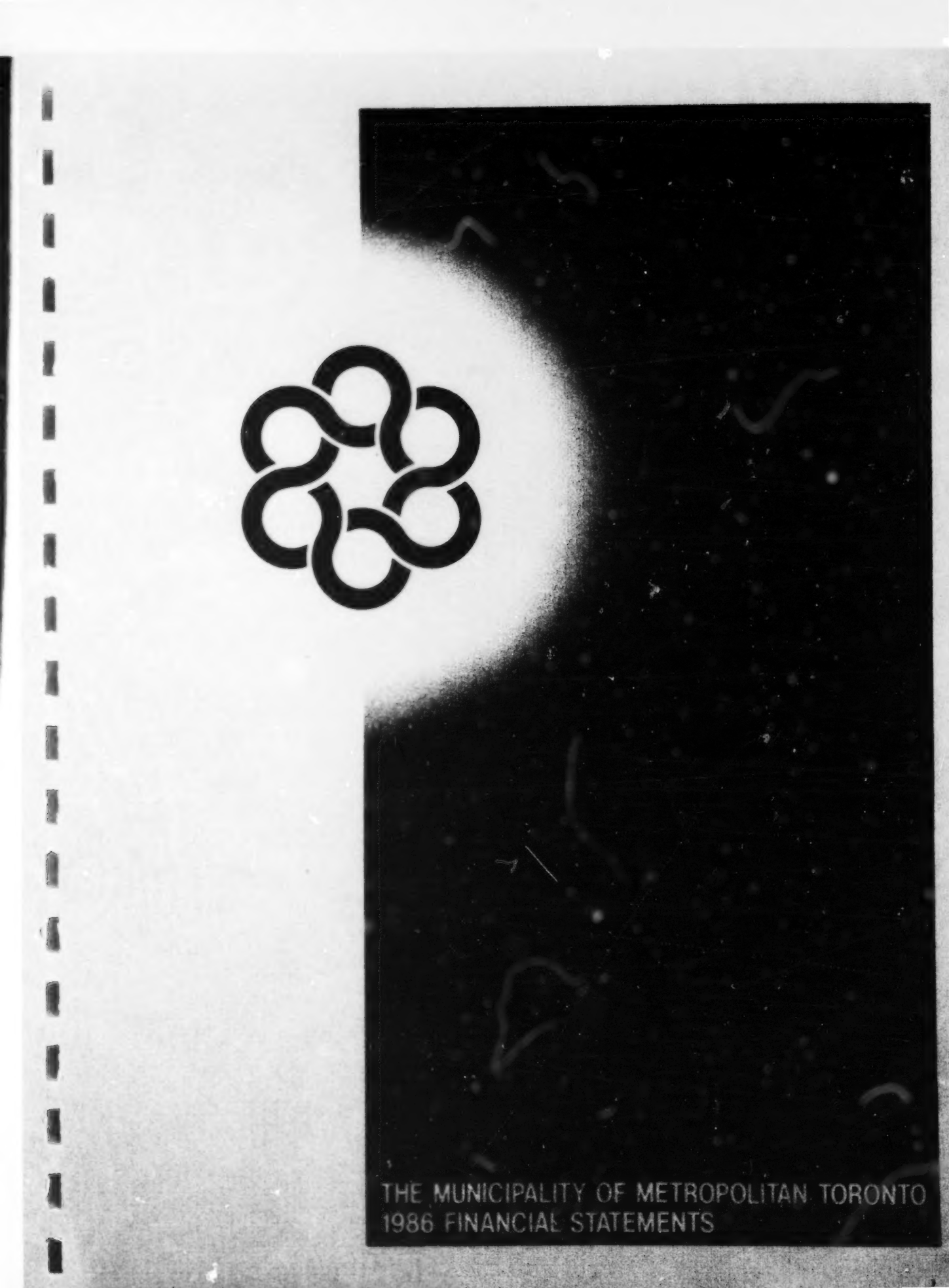

THE MUNICIPALITY OF METROPOLITAN TORONTO
1986 FINANCIAL STATEMENTS

87-04284/

Compiled by:

Treasury Department
Municipality of Metropolitan Toronto
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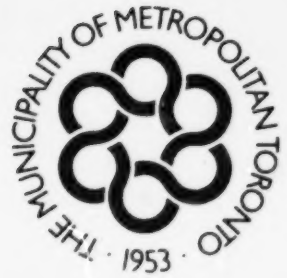
Additional copies are available at the above address



The Municipality of Metropolitan Toronto was incorporated in 1953 as a regional government by an act of the Province of Ontario. It is located on the north shore of Lake Ontario and consists of six municipalities, namely, the City of Toronto, the City of North York, the City of Scarborough, the City of Etobicoke, the City of York, and the Borough of East York. The Municipality covers 632 square kilometres extending 40 kilometres along the north shore of Lake Ontario and 16 kilometres inland.

The principle underlying the distribution of responsibilities between the Municipality of Metropolitan Toronto and its constituent area municipalities recognizes the need to unify those functions which are common to the whole area, while at the same time permits local, personal administration of matters of local concern. Accordingly, amalgamated services assigned to the Metropolitan Corporation include, inter alia, public transit, police protection, welfare administration, ambulance services and elderly persons housing; services which are the exclusive responsibility of the area municipalities in the Metropolitan federation include fire protection, garbage collection, water supply distribution, minor arterial roads and the collection of taxes.

The Corporate logo, depicted above, symbolizes the six area municipalities, independent, yet interdependent, forming a union whose strength is greater than that of its individual parts.

CONTENTS

Six-Year Financial Review

Financial Statements

Municipality of Metropolitan Toronto

Metropolitan Toronto Trust Funds

Metropolitan Waterworks System

The Financial Statements of the Municipality of Metropolitan Toronto reflect the activities of the Municipality **not consolidated** with its local boards, commissions and municipal enterprises. Consolidated financial statements for the Municipality will shortly be published as part of the Annual Report of the Commissioner of Finance.

The Municipality of
Metropolitan Toronto

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Address all correspondence to
John L. Pickard, B.Com., F.C.A.
Commissioner of Finance and Treasurer

M.A. Brooks I.P.F.A.
Director of Financial Services and Deputy Treasurer

Reply to the
attention of:

May 22, 1987

The Chairman and Members
of the Council
of the Municipality of Metropolitan Toronto

FINANCIAL STATEMENTS 1986

INTRODUCTORY

I am pleased to present the Financial Statements of the Municipality of Metropolitan Toronto for the year ended December 31, 1986. These statements reflect the operations of the Municipality which at this stage are not consolidated with its local boards and municipal enterprises. A comprehensive consolidated financial overview will be included as part of the subsequent Annual Financial Report for fiscal 1986. In the meantime I have commented in some detail on the 1986 financial results with a view to providing an overview of 1986 fiscal activity.

Also presented herein are the Financial Statements of the Trust Funds administered by the Municipality, together with the Financial Statements of the Metropolitan Waterworks System, a municipal enterprise of the Metropolitan Corporation.

CURRENT OPERATIONS

The current fund surplus recorded by the Metropolitan Corporation in 1986, in excess of $52 million, represented the 33rd consecutive annual surplus and is attributable to a number of circumstances. Briefly stated, total operating expenditures amounted to $29 million lower than budget while total operating revenues exceeded budget by $23 million.

Operating expenditures

In 1986, total gross operating expenditure amounted to $1,402,540,000 (1985 - $1,310,864,000) as compared with a total gross operating budget of $1,431,853,000.

DOLLARS IN THOUSANDS

	1986 Budget	1986 Actual	Budget Comparison	1985 Actual
General government	$ 76,771	$ 71,342	$ 5,429 (a)	$ 69,138
Protection to persons and property	394,309	387,449	6,860 (b)	363,631
Transportation services	239,087	227,994	11,093 (c)	235,083
Environmental services	142,932	144,409	(1,477)(d)	144,468
Health services	45,778	44,142	1,636	40,726
Social and family services	437,876	434,495	3,381 (e)	377,713
Recreation and cultural services	81,808	81,136	672	71,541
Planning and development	11,393	11,573	(180)	8,564
Other	1,899	-	1,899	-
	$1,431,853	$1,402,540	$29,313	$1,310,864

(a) General administration costs and tax deficiencies lower than budgeted.
(b) Actual strength of Police Commission uniform and civilian personnel lower than budgeted; underexpenditures in police relocation costs and vehicle repairs.
(c) Lower than budgeted operating subsidy paid to the Toronto Transit Commission as a result of increased transit ridership; lower than budgeted winter maintenance costs and roads equipment rentals.
(d) Tonnage processed at landfill sites and transfer stations approximately 28% higher than budgeted but, as noted on page 3, overexpenditure was more than offset by increased revenue.
(e) Partial deferral into 1987 of space expansion program for children's services and renovations to homes for the aged.

Operating revenues

In 1986, total operating revenues amounted to $1,417,357,000 (1985 - $1,313,192,000) as compared with total budgeted revenues of $1,394,044,000.

DOLLARS IN THOUSANDS

	1986 Budget	1986 Actual	Budget Comparison	1985 Actual
Taxation - (Levy on area municipalities, supplementary taxes)	$ 671,991	$ 674,474	$ 2,483	$ 635,820
Ontario grants	506,724	507,980	1,256	459,057
User charges	161,926	170,927	9,001	147,627
Other revenue	53,403	63,976	10,573	70,688
	$1,394,044	$1,417,357	$23,313	$1,313,192

Taxation

The general tax levy on Metropolitan Toronto's six constituent area municipalities increased 5.7 per cent. over 1985, while the rate of growth in the assessment upon which the Metropolitan levy is apportioned declined slightly from 1.4 per cent. in 1985 to 1.3 per cent. in 1986.

Ontario grants

The total of grants received from the Province of Ontario during 1986 at $507,980,000 represented 36.2 per cent. of gross expenditures, as compared with 35.0 per cent. in 1985. During 1986 the basis of calculation of the general support grant was slightly enriched from 5.75% to 6.0% of the "net general dollar levy of the previous year", contributing to an increase in such grant from $44,360,000 in 1985 to $49,217,000 in 1986.

User charges

As noted on page 2, the favourable variance of $9,001,000 arises principally from higher revenue as a result of the increased tonnage processed at landfill sites and transfer stations.

Other revenue

Higher than anticipated interest earnings, parking tag revenue and provincial court fines and fees account principally for the favourable variance of $10,573,000.

CAPITAL OPERATIONS

Gross capital expenditure in 1986 amounted to $323 million, an increase of 21 per cent. over 1985. Of this sum, $168 million, or 52 per cent., was spent on expansion and improvements to the transit system, while sewage and refuse disposal capital expenditure, at $41 million, accounted for 13 per cent. Expenditures in regard to protection to persons and property also totalled $41 million and related primarily to expenditure on the construction of the new police headquarters.

Transit capital expenditures continued to be mainly associated with the Toronto Transit Commission's ongoing program of vehicle fleet modernization which accounted for $120 million, or 71% of the total transit capital expenditures during the year.

Total financing of capital expenditures during 1986 amounted to $312 million and was comprised principally of provincial capital grants in the sum of $144 million (46%), contributions from current funds of $72 million (23%) and long term debt incurred of $64 million (20%). In addition, other miscellaneous sources of capital financing such as proceeds from the sale of capital assets and sundry capital contributions and recoveries totalled $20 million (7%) while excess sinking fund investment earnings amounted to $12 million (4%).

LONG RANGE CAPITAL AND FINANCIAL PLANNING

Capital expenditure financed from current funds

Metropolitan Council's long range capital and financial planning policy for its general municipal purpose and municipal enterprise operations is designed to ensure a balanced financing mix between internally generated revenues and debenture financing for the Municipality's capital expenditures and other long term capital improvements. The capital financing policy adopted is designed to stabilize the contribution of the revenue fund towards capital expenditures at a level generally of 50 per cent. of the actual net capital financing requirements for each year. To the extent that the annual provision in the operating budget to finance capital expenditures out of current funds exceeds this limit, the excess is transferred to a capital financing stabilization reserve; conversely if such annual provision amounted to less than the 50 per cent. guideline, the shortfall is met by a draw upon the reserve.

As a result of 1986 capital operations and in accordance with this policy, an amount of $53,677,000 was utilized from current operations to finance capital expenditures while $6,708,000 was transferred from the reserve. The balance of this reserve was $14,088,000 as at December 31, 1986.

Guidelines for future capital expenditure

In 1985, Metropolitan Council approved a ten-year plan of capital expenditure and associated debt management guidelines, following a comprehensive financial planning study designed to identify measures to further control the Corporation's capital expenditures and debt servicing charges within limits considered necessary to achieve multi-year financial targets established by Council. The study projects over a 10-year period the levels of net capital expenditures in various functional areas, with a view to determining priorities as between competing service demands for capital resources and relating such multi-year expenditure levels and priorities to debt management policy guidelines.

Recommendations included:

a) specific net capital expenditure targets for the next five years and further five year targets to be utilized as a planning guide;
b) specific criteria for the management of debt;
c) a process to review and update the plan on an annual basis.

The expenditure targets approved by Metropolitan Council are based on three key criteria:

a) percentage of fixed debt charges in the levy should average no more than 15 per cent.;
b) percentage of net capital expenditure to be raised in the levy should be no less than 50 per cent.; and
c) the mill rate should increase each year by no more than the inflation rate within the economy as measured by the Consumer Price Index.

These guidelines form the basis of the Budget Sub-Committee's review of future Five-Year Capital Works Programs; any revisions to long term capital expenditure targets arising from such reviews are to be the subject of subsequent reports to Metropolitan Council.

DEBT STRUCTURE

The table below details the net long term liabilities of the Municipality of Metropolitan Toronto over the last six years in respect of its own general municipal activities and municipal enterprises (exclusive of those of the Area Municipalities). Net long term liabilities in respect of general municipal purposes are also expressed on a per capita basis and as a percentage of taxable assessment.

DOLLARS IN THOUSANDS, EXCEPT PER CAPITA FIGURES

	General Municipal Activities	Per Capita	Percentage of Taxable Assessment	Municipal Enterprises
1981	$452,608	$214	6.08	$136,189
1982	419,148	197	5.41	123,293
1983	415,318	196	5.28	109,636
1984	388,949	182	4.85	96,298
1985	358,207	167	4.40	83,948
1986	**374,244**	**176**	**4.55**	**71,955**

Metro Council's capital financing policy involving a "pay-as-you-go" annual provision of about 50 per cent. of capital borrowing requirements, as previously described, has been over the last several years one of the most significant contributing factors in the general decline of the Corporation's long term debt.

DEBT SERVICING

Also during the past six years, debt service charges for the general municipal purposes of the Metropolitan Corporation, as a percentage of the annual general tax levy on Metropolitan taxpayers, have declined from 19.6 per cent. to 13.9 per cent. and as a percentage of total operating expenditure from 10.3 per cent. to 6.7 per cent. as shown by the following tables:

DOLLARS IN THOUSANDS

	Debt Charges	General Tax Levy	Percentage
1981	$87,178	$ 444,541	19.6
1982	85,853	493,162	17.4
1983	87,744	547,650	16.0
1984	91,797	606,231	15.1
1985	93,936	635,820	14.8
1986	**93,810**	**674,474**	**13.9**

	Debt Charges	Total Operating Expenditure	Percentage
1981	$87,178	$ 843,425	10.3
1982	85,853	1,004,221	8.5
1983	87,744	1,112,253	7.9
1984	91,797	1,219,647	7.5
1985	93,936	1,310,864	7.2
1986	**93,810**	**1,402,540**	**6.7**

RESERVES AND RESERVE FUNDS

The table below lists the year end balances of Reserves and Reserve Funds of the Municipality over the last six years in relation to total operating expenditures.

DOLLARS IN THOUSANDS

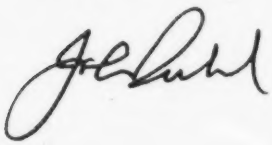
	Reserves and Reserve Funds	Total Operating Expenditures	Percentage
1981	$39,454	$ 843,425	4.7
1982	80,654	1,004,221	8.0
1983	46,124	1,112,253	4.1
1984	72,336	1,219,647	5.9
1985	72,020	1,310,864	5.5
1986	**104,876**	**1,402,540**	**7.5**

In my opinion, the level of reserves and reserve funds is considered to be adequate in relation to the ongoing operations of the Municipality.

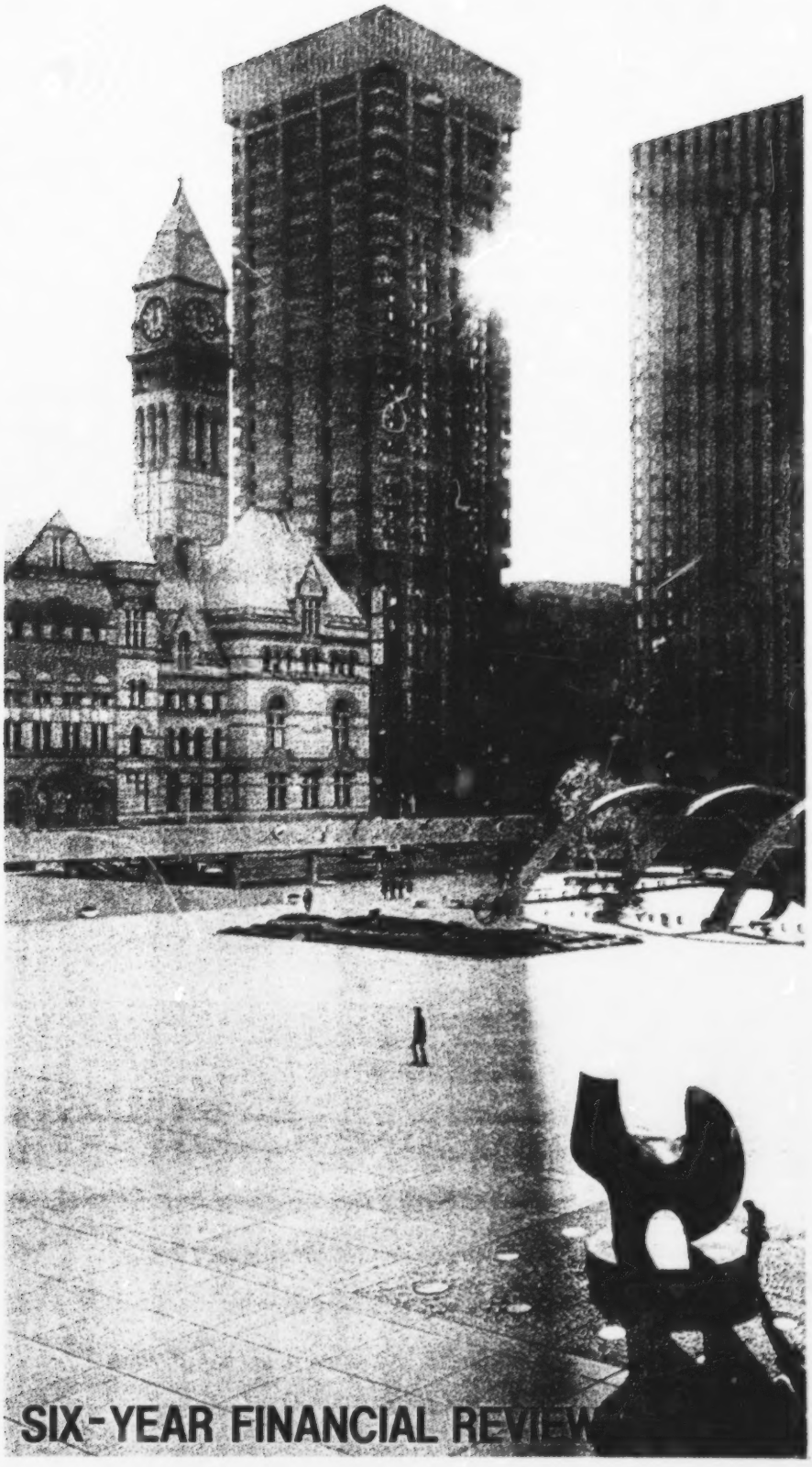
CONCLUSION

The endeavours of members and staff of Metropolitan Council continue to be based on prudent and thoughtful financial management policies. Accordingly, the Municipality further consolidated its financial position in 1986, meeting increased demands for municipal services while staying within its resources.

Respectfully submitted,



John L. Pickard, B. Com., F.C.A.
Commissioner of Finance and Treasurer



SIX-YEAR FINANCIAL REVIEW

MUNICIPALITY OF METROPOLITAN TORONTO

SIX-YEAR FINANCIAL REVIEW

NOT SUBJECT TO AUDIT

		1986	1985
Statistics	Population at the end of the year	2,130,938	2,145,900
	Area in acres at the end of the year	154,584	154,584
	Employees - continuous full time	14,924	14,266
	- part time	2,259	1,688
Assessment	Taxable assessment upon which the year's rates of taxation were set		
	Residential and farm	$3,935,859	$3,930,227
	Commercial and industrial	4,315,798	4,211,612
		$8,251,657	$8,141,839
	Per capita	$ 3,872	$ 3,794
	Commercial and industrial, and business as a percentage of taxable assessment	52.30%	51.73%
Current Operations	Revenue for general municipal services		
	Taxation - (Levy on area municipalities, supplementary taxes)	$ 674,474	$ 635,820
	Ontario grants	507,980	459,057
	Other grants	1,500	949
	User charges	170,927	147,627
	Other revenue	62,476	69,739
		$1,417,357	$1,313,192
	Expenditure - general municipal	$1,402,540	$1,310,864
	Transfers to the school boards	$1,315,310	$1,184,910
	Accumulated net revenue at end of year	$ 52,626	$ 37,809

DOLLARS IN THOUSANDS EXCEPT PER CAPITA FIGURES

1984	1983	1982	1981
2,131,942	2,124,085	2,122,369	2,110,973
154,584	154,584	154,584	154,584
14,325	14,130	13,360	13.028
1,358	1,195	1,630	1,294
$3,892.227	$3,816,298	$3,719,100	$3,626,267
4,133,651	4,045,484	4,021,747	3,820,133
$8,025,878	$7,861,782	$7,740,847	$7,446,400
$ 3,765	$ 3,701	$ 3,647	$ 3,527
51.50%	51.46%	51.95%	51.30%
$ 606,231	$ 547,650	$ 493,162	$ 444,541
425,253	397,939	351,688	293,464
2,442	2,065	56	250
124,979	112,997	90,622	68,615
56,894	57,608	53,220	54,289
$1,215,799	$1,118,259	$ 988,748	$ 861,159
$1,219,647	$1,112,253	$1,004,221	$ 843,425
$1,079,304	$1,001,205	$ 907,773	$ 776,569
$ 35,481	$ 39,329	$ 33,323	$ 48,796

MUNICIPALITY OF METROPOLITAN TORONTO

SIX-YEAR FINANCIAL REVIEW (continued)

NOT SUBJECT TO AUDIT

		1986	1985
Net Long Term Liabilities	General municipal activities	$ 374,244	$ 358,207
	Per capita	$ 176	$ 167
	Percentage of taxable assessment	4.55%	4.40%
	Municipal enterprises	$ 71,955	$ 83,948
	Charges for net long term liabilities		
	General municipal activities	$ 93,810	$ 108,868
	Per capita	$ 44	$ 51
Capital Operations	Capital financing during the year		
	Contributions from own funds	$ 83,472	$ 70,574
	Long term liabilities incurred	64,243	11,645
	Ontario grants	144,138	141,394
	Other	20,063	20,649
		$ 311,916	$ 244,262
	Capital expenditure during the year	$ 323,285	$ 268,466
Reserves and Reserve Funds	Balance at end of year	$ 104,876	$ 72,020

DOLLARS IN THOUSANDS EXCEPT PER CAPITA FIGURES

	1984	1983	1982	1981
	$ 388,949	$ 415,318	$ 419,148	$ 452,608
	$ 182	$ 196	$ 197	$ 214
	4.85%	5.28%	5.41%	6.08%
	$ 96,298	$ 109,636	$ 123,293	$ 136,189
	$ 91,797	$ 87,744	$ 85,853	$ 87,178
	$ 43	$ 41	$ 40	$ 41
	$ 55,523	$ 81,598	$ 40,839	$ 50,028
	18,901	38,160	9,131	12,362
	122,869	115,126	82,747	62,047
	22,549	20,879	14,801	13,559
	$ 219,842	$ 255,763	$ 147,518	$ 137,996
	$ 228,326	$ 274,771	$ 153,681	$ 119,656
	$ 72,336	$ 46,124	$ 80,654	$ 39,454

METROPOLITAN TORONTO

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department
7th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 392-8030

Allan G. Andrews, C.A., *Metropolitan Auditor*

May 19, 1987

AUDITOR'S REPORT

**The Chairman and Members of the
Metropolitan Council of the
Municipality of Metropolitan Toronto**

I have examined the balance sheet of the Municipality of Metropolitan Toronto as at December 31, 1986 and the statement of operations for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Municipality as at December 31, 1986 and the results of its operations for the year then ended in accordance with generally accepted accounting principles for Ontario municipalities applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

MUNICIPALITY OF METROPOLITAN TORONTO

BALANCE SHEET
DECEMBER 31, 1986

ASSETS	1986	1985
Unrestricted		
Cash	$ 1,713	$ 3,600
Investments (note 3)	262,018	176,749
User charges receivable	28,243	21,987
Accounts receivable (note 4)	167,330	159,441
Inventory	3,943	3,791
Prepaid expenses	12,401	10,459
Long term receivables	2,578	2,405
	478,226	378,432
Restricted		
Cash	156	115
Investments (note 3)	25,159	18,420
Accounts receivable	29,286	656
Other current assets	133	126
	54,734	19,317
Capital outlay financed by long term liabilities and to be recovered in future years (note 7)	374,244	358,207
	$907,204	$755,956

see accompanying notes

DOLLARS IN THOUSANDS

LIABILITIES AND FUND BALANCES	1986	1985
Current liabilities		
Temporary loans	$ 11,653	$ 12,811
Accounts payable and accrued liabilities (notes 5, 6, 12)	364,276	266,255
Other current liabilities (note 4)	13,582	12,747
	389,511	291,813
Long term payables	14,745	13,536
Net long term liabilities (note 7)	374,244	358,207
Fund balances at end of year (notes 9,10)		
To be used to offset taxation or user charges in the following year	52,626	37,809
Unexpended capital financing (Capital operations not yet permanently financed)	(28,798)	(17,429)
Reserves	51,025	53,033
Reserve funds	53,851	18,987
	$907,204	$755,956

MUNICIPALITY OF METROPOLITAN TORONTO

STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1986

SOURCES OF FINANCING	1986	1985
Taxation and user charges		
Requisition on local municipalities	**$1,989,784**	$1,820,730
Less school board requisition	**(1,315,310)**	(1,184,910)
User charges	**171,358**	147,820
Grants		
Government of Canada	**1,500**	1,778
Province of Ontario	**652,118**	600,451
Other		
Investment income	**22,579**	19,397
Sale of land	**4,370**	2,378
Fines	**29,731**	22,465
Other	**53,898**	31,440
Proceeds from the issue of long term liabilities	**63,359**	11,433
Net appropriations from reserves and reserve funds		316
Municipal fund balances at beginning of year		
To be used to offset taxation or user charges	**37,809**	35,481
Unexpended capital financing (Capital operations not yet permanently financed)	**(17,429)**	6,775
	$1,693,767	$1,515,554

see accompanying notes

DOLLARS IN THOUSANDS

APPLIED TO	1986	1985
Current operations		
General government	$ 63,097	$ 55,760
Protection to persons and property	365,632	348,191
Transportation services	206,323	209,559
Environmental services	127,448	127,211
Health services	41,183	37.575
Social and family services	429,858	374,783
Recreation and cultural services	66,703	63,354
Planning and development	11,512	8,511
	1,311,756	1,224,944
Capital operations		
General government	618	432
Protection to persons and property	40,986	23,550
Transportation services	204,710	185,885
Environmental services	40,375	33,917
Health services	3,401	3,492
Social and family services	17,198	7,114
Recreation and cultural services	17,964	15,794
Planning and development	75	46
	325,327	270,230
Net appropriations to reserves and reserve funds	32,856	
Municipal fund balances at end of year		
To be used to offset taxation or user charges	52,626	37,809
Unexpended capital financing (Capital operations not yet permanently financed)	(28,798)	(17,429)
	$1,693,767	$1,515,554

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986

1. ACCOUNTING POLICIES

The financial statements of the Municipality of Metropolitan Toronto are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments.

(a) Basis of Consolidation

(i) Consolidated entities

These financial statements reflect the assets, liabilities, sources of financing and expenditures of the revenue fund, capital fund, reserve funds and reserves of the Municipality, including the Metropolitan Board of Commissioners of Police and the Metropolitan Licensing Commission.

All interfund assets and liabilities and sources of financing and expenditures have been eliminated with the exception of loans or advances between reserve funds and any other fund of the municipality and the resulting interest income and expenditures.

The Statement of Operations reflects the Metropolitan Toronto Education Levy requisitioned upon the Metropolitan Toronto area municipalities and the subsequent transfer thereof to the Metropolitan Toronto School Board.

(ii) Non-consolidated entities

The following entities are not consolidated:

Metropolitan Toronto Waterworks System
Metropolitan Toronto Library Board
Toronto Transit Commission
Gray Coach Lines, Limited
Board of Governors of Exhibition Place
Board of Management of the O'Keefe Centre
Board of Management of the Metropolitan Toronto Zoo
Board of Management of the Guild
Metropolitan Toronto Housing Company, Limited
Metropolitan Toronto Singles Housing Corporation
Metropolitan Toronto School Board

(iii) Trust funds

Trust funds and their related operations administered by the Municipality are not consolidated but are reported separately on the Trust Funds Statement of Continuity and Balance Sheet.

(b) Basis of Accounting

(i) Revenue and expenditure recognition

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) Charges for long term liabilities

Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they are paid.

(iii) Fixed assets

The historical cost and accumulated depreciation for fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Statement of Operations in the year of acquisition.

(iv) Capital outlay financed by long term liabilities and to be recovered in future years

"Capital Outlay financed by long term liabilities and to be recovered in future years", which represents the outstanding principal portion of unmatured long term liabilities for municipal expenditures, the value of long term obligations arising out of capital leases entered into by the Municipality and capital funds transferred to other organizations, is reported on the Balance Sheet.

(v) Liabilities payable in foreign currencies

Long term debt payable in foreign currencies has been translated into Canadian funds at the exchange rates prevailing at the time the debt was incurred.

(vi) Inventories

Inventories are valued at average cost.

2. TRUST FUNDS

Trust funds administered by the Municipality amounting to $21,922,000 (1985 - $19,632,000) have not been included in the Balance Sheet nor have their operations been included in the Statement of Operations.

3. INVESTMENTS

The unrestricted investments of $262,018,000 (1985 - $176,749,000) and restricted investments of $25,159,000 (1985 - $18,420,000) are recorded on the Balance Sheet at cost. The market value of these investments at the end of the year approximates cost.

4. SINKING FUNDS SURPLUS MONIES

The Sinking fund balances reflected in the value of net long term liabilities at the end of the year do not include specific accumulations at that date in excess of the total related debt. These accumulations amounting to $10,608,000 in 1986 (1985 - $11,697,000) are subject to a decision of The Metropolitan Council as to their use for either capital or current purposes. Accordingly, while they have been recorded as receivable, corresponding amounts have been set up as deferred revenue and are included on the Balance Sheet under "Other Current Liabilities".

5. LIABILITY FOR PAST SERVICE PROVISION OF PENSION AGREEMENTS

The Municipality of Metropolitan Toronto maintains a number of pension plans, with most employees participating in contributory plans that provide pensions based on length of service and final average earnings.

Aproximately 72% of the employees of the Municipality are members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan, benefits under which are provided in accordance with a defined benefit plan. The amount for which the Municipality is obliged to fund past service cannot be quantified and the cost of pension benefits under this plan is the Municipality's required contribution in each year.

The balance of employees (which include approximately 25% of Police Commission employees) are members of other pension plans. Based on projections of employees' compensation levels to time of retirement, actuarial estimates indicate that the present value of the unfunded obligations for pension benefits relating to past service in regard to these plans was $68,960,000 as at December 31, 1986 (1985 - $85,275,000). This balance is being funded and charged to operations as follows:

	DOLLARS IN THOUSANDS
1987 to 1989	$29,189
1990 to 1992	28,646
1993 to 1994	11,125
	$68,960

No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. In this regard, expenditure of $10,670,000 was funded in 1986 (1985 - $11,889,000) and is reported on the Statement of Operations.

6. LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the employment of the Municipality. In order to provide for this past service liability the Municipality has established a Corporate Sick Pay Reserve Fund. The following local boards and municipal enterprises also participate in this reserve fund:

Metropolitan Waterworks System
Metropolitan Toronto Library Board
Board of Governors of Exhibition Place
Board of Management of the Metropolitan Toronto Zoo
Metropolitan Toronto Housing Company, Limited

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to $85,159,000 (1985 - $79,005,000) at the end of the year.

Contributions to the Corporate Sick Pay Reserve Fund are based on amounts deemed to be sufficient to provide for anticipated payments over a given period of time, and, over the next nine years, will be as follows:

	DOLLARS IN THOUSANDS		
	1987 to 1989	1990 to 1992	1993 to 1995
Municipality	$6,392	$6,392	$6,392
Other participants	498	498	498

During 1986, the contributions to the reserve fund by the Municipality and other participants amounted to $2,338,000 and $184,000 respectively. At December 31, 1986, the balance of the Corporate Sick Pay Reserve Fund was $15,557,000 (1985 - $16,215,000).

7. NET LONG TERM LIABILITIES

The net long term liabilities of the Municipality are comprised of debenture debt issued, and long term obligations incurred, by the Municipality.

(a) Debenture debt

Under the provisions of the Municipality of Metropolitan Toronto Act, the Metropolitan Corporation has the sole responsibility for borrowing money for its own account, the accounts of its local boards and municipal enterprises, and for the accounts of its area municipalitites and their local boards, municipal enterprises and utilities. It also assumed, under the provisions of the Act, certain debt incurred directly by its area municipalities prior to this statutory responsibility. Where money is borrowed or debt assumed on behalf of other bodies, repayment of the related debt servicing requirements is made by these bodies to the Municipality.

(b) Other long term obligations

This category comprises:

	DOLLARS IN THOUSANDS	
	1986	1985
Lease purchase agreements		
Animal Domain Ride - Metropolitan Toronto Zoo	$ 2,386	$ 2,760
Computer equipment - Metropolitan Police Commission	2,383	3,114
Computer equipment - Metropolitan Department of Ambulance Services	141	197
	4,910	6,071
Long term interest free loan payable to Province of Ontario for expansion of Exhibition Stadium	6,601	7,142
	$11,511	$13,213

(c) **Reconciliation of gross long term liabilities with net long term liabilities as reported on the Balance Sheet**

	DOLLARS IN THOUSANDS	
	1986	1985
Total long term liabilites incurred by the Municipality, including those incurred on behalf of school boards, other municipalities and municipal enterprises, and outstanding at the end of the year amount to	**$1,312,672**	$1,381,950
In addition, the Municipality has assumed responsibility for the payment of principal and interest charges on certain long term liabilities issued by other municipalities. At the end of the year the outstanding principal amount of this liability is	**545**	616
Other long term obligations arising out of capital leases entered into, and long term loans incurred, by the Municipality and outstanding at the end of the year amount to	**11,511**	13,213
	1,324,728	1,395,779
Of the long term liabilities shown above, the responsibility for payment of principal and interest charges has been assumed by school boards, other municipalities, municipal enterprises and by the Province of Ontario. At the end of the year, the outstanding principal amount of this liability is	**(648,937)**	(746,551)
The total value of sinking funds and the balance in the Ministry of the Environment Debt Retirement Fund which have been accumulated to the end of the year to retire the outstanding long term liabilities included above amount to	**(301,547)**	(291,021)
Net long term liabilities	**$ 374,244**	$ 358,207

(d) **Net long term liabilities - future redemption**

Of the net long term liabilities reported in (c) of this note, $133,357,000 in principal payments are payable from 1987 to 1991, $107,449,000 from 1992 to 1996, and $19,610,000 thereafter.

The difference between the total of principal redemption indicated above ($260,416,000) and the total of net long term liabilities reported in note 7 (c) ($374,244,000) is related to the following two factors:

(i) Long term liabilities payable in U.S. funds reported in note (c) have been translated into Canadian funds at the exchange rates prevailing at the time the debt was incurred, whereas the projections of principal redemption above are based on $1 US = $1 Canadian.

(ii) The projections of principal redemption indicated above are based on the premise that actuarial sinking fund deposits (in respect of sinking fund debentures) will earn interest, capitalized yearly thereon, at a rate not exceeding 8% and which will be sufficient to repay such debentures in full at maturity.

(e) **Translation of net long term liabilities payable in foreign currencies**

Included in "Net long term liabilities" on the Balance Sheet is an amount of $114,527,000 (1985 - $127,856,000) payable in U.S. funds and translated into Canadian funds at the rates of exchange prevailing at the time the liability was incurred. If translated at the exchange rate prevailing at December 31, 1986, the Canadian dollar equivalent of this amount of debt would be increased by $34,449,000 (1985 -$40,904,000).

(f) **Ontario Municipal Board**

Approval of the Ontario Municipal Board has been obtained for the debenture debt reported in (c) of this note issued in the name of the Municipality.

(g) **Long term liabilities incurred on behalf of area municipalities, municipal enterprises and school boards**

The Municipality is contingently liable for long term liabilities for which the responsibility for the payment of principal and interest has been assumed by its area municipalities, municipal enterprises and school boards. The total amount outstanding as at December 31, 1986 is $635,493,000 (1985 -$733,107,000) and is not recorded on the Balance Sheet.

8. CHARGES FOR NET LONG TERM LIABILITIES

Total charges for the year for net long term liabilities which are reported on the Statement of Operations are as follows:

	DOLLARS IN THOUSANDS	
	1986	1985
Principal payments including contributions to sinking funds and the Ministry of the Environment Debt Retirement Fund	$29,015	$ 29,620
Interest	64,795	79,248
	$93,810	$108,868

The charges for long term liabilities assumed by other municipalities, municipal enterprises and school boards are not reflected in these statements.

9. MUNICIPAL FUND BALANCES AT THE END OF THE YEAR

The balances on the Statement of Operations of municipal equity of $23,828,000 (1985 - $20,380,000) at the end of the year are comprised of the following:

	DOLLARS IN THOUSANDS	
	1986	1985
For general reduction of taxation	$52,626	$37,809
Acquisition of fixed assets to be recovered through taxation	(41,398)	(42,381)
Acquisition of fixed assets to be financed from the proceeds of long term liabilities	(41,398)	(42,381)
Funds available for the acquisition of fixed assets	53,998	67,333
	$ 23,828	$ 20,380

Approval of the Ontario Municipal Board has been obtained for the pending issues of long term liabilities.

10. RESERVES AND RESERVE FUNDS

The total balances of reserves and reserve funds of $51,025,000 (1985 - $53,033,000) and $53,851,000 (1985 - $18,987,000) respectively are made up of the following:

	DOLLARS IN THOUSANDS	
	1986	1985
Reserves set aside for specific purposes by Council		
Exchange stabilization	$ 4,360	$ 4,360
Replacement of equipment	3,838	4,654
Sick pay benefits	2,869	2,274
Capital financing stabilization	14,088	20,796
Parks and recreation program facilities	1,089	1,089
Arbitration contingencies	20,058	15,000
Other contingencies	4,723	4,860
	51,025	53,033
Reserve funds set aside for specific purposes by Council		
Insurance	4,431	1,149
Sick pay benefits	15,557	16,215
Parks and recreation program facilities	5,679	1,475
Pollution control	24,882	-
Property settlement	3,118	-
Other	51	22
	53,718	18,861
Reserve funds set aside for specific purposes by legislation, regulation or agreement		
Contingencies re. Lakeview Sewage Treatment Plant	133	126
	53,851	18,987
	$104,876	$72,020

11. CAPITAL FINANCING STABILIZATION RESERVE

A Capital Financing Stabilization Reserve has been established for the purpose of stabilizing the contribution of the revenue fund towards capital expenditure at a level no greater than 50 per cent of the actual net capital financing requirements for the year. The current policy of Council for financing net capital expenditures is to meet up to 50 per cent of the required financing by an annual current levy and transfers, where necessary and available, from the Stabilization Reserve, the balance being provided from excess sinking fund earnings and debenture proceeds; conversely if the annual current levy produces a sum of funds in excess of the 50 per cent guideline, such excess is transferred to the Reserve.

Resulting from 1986 capital operations and in accord with this policy, an amount of $53,677,000 was utilized from current operations to finance capital expenditures while $6,708,000 was transferred from the reserve. The balance of this Reserve was $14,088,000 as at December 31, 1986. (1985 - $20,796,000).

12. CONTRACTUAL OBLIGATIONS

(a) Contribution towards domed stadium

Metropolitan Council, on January 22, 1985, approved a contribution towards the capital cost of construction of a domed stadium in a total amount not to exceed the lesser of $30 million, or 20 per cent of the total cost of the project. This contribution was approved as a current expenditure to be financed over a period of five years commencing in 1985 through the establishment and maintenance of a reserve fund with provision being made annually in the current estimates as follows:

1985	$ 500,000
1986	$7,200,000
1987	$7,200,000
1988	$7,200,000
1989	$7,900,000

In addition, Council adopted as policy that it would not be responsible for any operating costs or financial losses of the stadium, nor provide any grants to related organizations.

(b) Reduced T.T.C. fares for elderly

The Municipality has entered into an agreement with the Toronto Transit Commission whereby the Municipality has undertaken to assume the cost of the difference between the cost of regular adult fares and half-fares paid by residents of the Municipality 65 years of age and over, effective January 1, 1971, as amended. This agreement continues in force until terminated by either party on sixty days' notice. Expenditures by the Municipality amounted to $11,500,000 in 1986 and provision has been made in the estimates for 1987 for an expenditure of $11,477,000 in this regard.

(c) **Property settlements outstanding**

Due to the lengthy processes involved in the agreement of the valuation of properties expropriated for capital improvements, there were a number of settlements outstanding at the end of the year. In view of the complexities of arriving at valuations of such properties, no liability has been determined or recorded for such property settlements outstanding as at December 31, 1986.

13. COMPARATIVE FIGURES

Certain of the 1985 figures presented here for comparative purposes have been restated to conform with the current year's presentation.

ANALYSIS OF CURRENT OPERATIONS

ANALYSIS OF CAPITAL OPERATIONS

ANALYSIS OF RESERVES AND RESERVE FUNDS

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CURRENT OPERATIONS
YEAR ENDED DECEMBER 31, 1986

DOLLARS IN THOUSANDS

	1986 Budget	1986 Actual	1985 Actual
Surplus at beginning of year	$ 37,809	$ 37,809	$ 35,481
Revenue			
Taxation and user charges			
Requisition on local municipalities	1,981,908	1,989,784	1,820,730
Less school board requisition	(1,309,917)	(1,315,310)	(1,184,910)
User charges	161,926	170,927	147,627
Grants			
Government of Canada	1,350	1,500	949
Province of Ontario	506,724	507,980	459,057
Other			
Investment income	17,600	20,058	17,462
Sale of land	67	118	37
Fines	23,500	29,731	22,465
Other	10,886	12,569	29,775
	1,394,044	1,417,357	1,313,192
Expenditure			
General government	76,771	71,342	69,138
Protection to persons and property	394,309	387,449	363,631
Transportation services	239,087	227,994	235,083
Environmental services	142,932	144,409	144,468
Health services	45,778	44,142	40,726
Social and family services	437,876	434,495	377,713
Recreation and cultural services	81,808	81,136	71,541
Planning and development	11,393	11,573	8,564
Other	1,899	-	-
	1,431,853	1,402,540	1,310,864
Surplus at end of year	$ -	$ 52,626	$ 37,809

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF CAPITAL OPERATIONS
YEAR ENDED DECEMBER 31, 1986

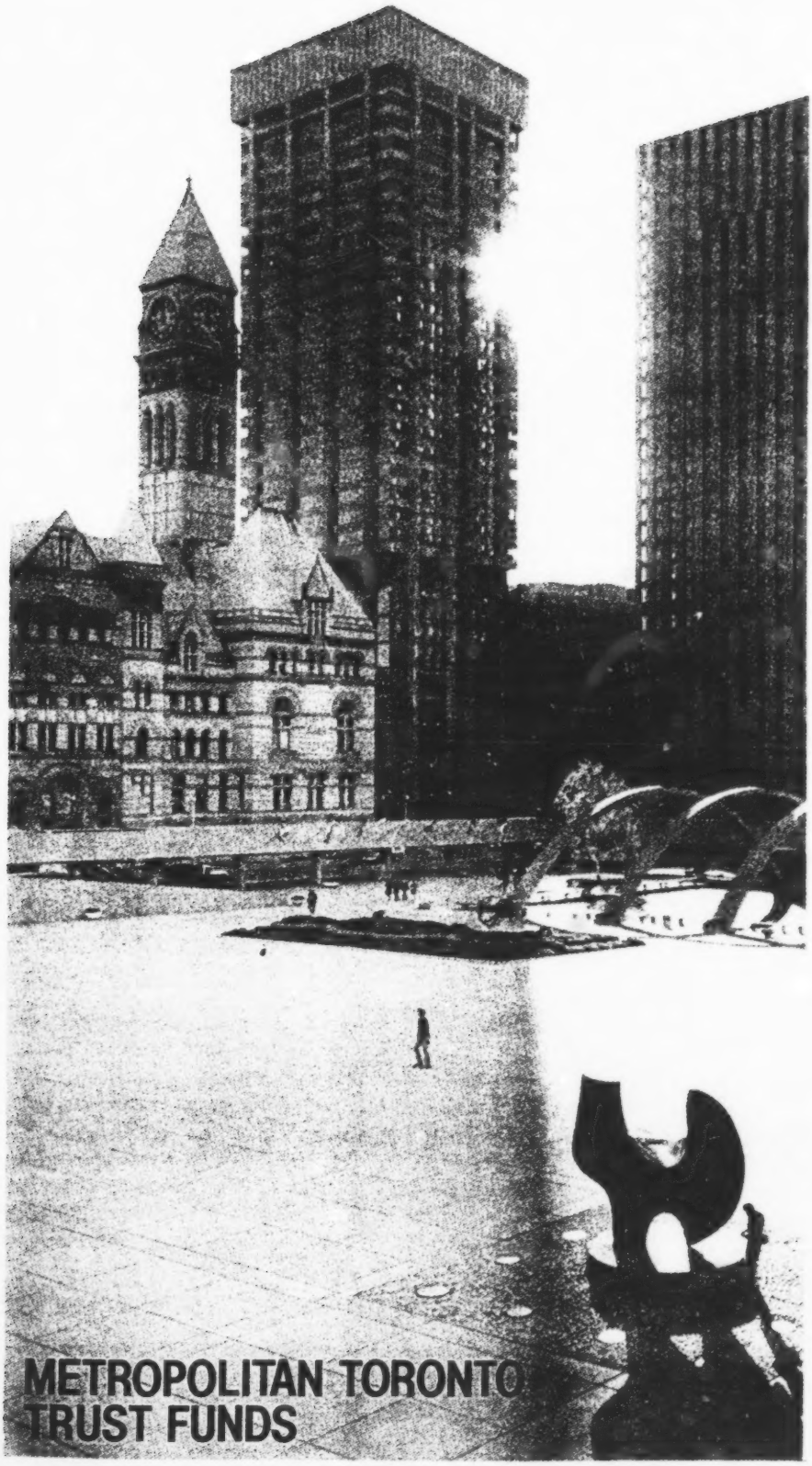
	DOLLARS IN THOUSANDS	
	1986	1985
Unexpended capital financing (Capital operations not yet permanently financed) at beginning of year	**$(17,429)**	$ 6,775
Financing		
Contribution from current operations	71,887	66,551
Contribution from reserve funds and reserves	11,585	4,023
Long term liability incurred	64,243	11,645
Ontario grants	144,138	141,394
Other	20,063	20,649
	311,916	244,262
Expenditure		
General government	637	455
Protection to persons and property	41,184	23,550
Transportation services	206,320	183,924
Environmental services	40,684	34,042
Health services	3,401	3,494
Social and family services	17,198	7,115
Recreation and cultural services	13,786	15,840
Planning and development	75	46
	323,285	268,466
(Capital operations not yet permanently financed) at end of year	**$(28,798)**	$(17,429)

MUNICIPALITY OF METROPOLITAN TORONTO

ANALYSIS OF RESERVES AND RESERVE FUNDS
YEAR ENDED DECEMBER 31, 1986

	DOLLARS IN THOUSANDS	
	1986	1985
Balance at beginning of year	**$ 72,020**	$72,336
Revenue		
Contributions from current operations	27,783	25,122
Contributions from capital operations	3,118	7
Contributions from others	25,975	818
Interest earned	2,521	1,935
	59,397	27,882
Expenditure		
Transfers to current operations	-	16,380
Transfers to capital operations	11,585	4,023
Other charges	14,956	7,795
	26,541	28,198
Balance at end of year	**$104,876**	$72,020

	DOLLARS IN THOUSANDS	
	1986	1985
Analyzed as follows:		
Reserves		
Exchange stabilization	$ 4,360	$ 4,360
Replacement of equipment	3,838	4,654
Sick pay benefits	2,869	2,274
Capital financing stabilization	14,088	20,796
Parks and recreation program facilities	1,089	1,089
Contingencies	24,781	19,860
	51,025	53,033
Reserve Funds		
Insurance	4,431	1,149
Sick pay benefits	15,557	16,215
Parks and recreation program facilities	5,679	1,475
Pollution control	24,882	-
Property settlement	3,118	-
Contingencies	133	126
Other	51	22
	53,851	18,987
Balance at end of year	**$104,876**	$72,020



METROPOLITAN TORONTO TRUST FUNDS

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department
7th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 392-8030

Allan G. Andrews, C.A., *Metropolitan Auditor*

May 19, 1987

AUDITOR'S REPORT

**The Chairman and Members of the
Metropolitan Council of the
Municipality of Metropolitan Toronto**

I have examined the balance sheet of the trust funds of the Municipality of Metropolitan Toronto as at December 31, 1986 and the trust funds statement of continuity for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the trust funds of the Municipality as at December 31, 1986 and the continuity of trust funds for the year then ended in accordance with generally accepted accounting principles for Ontario municipalities applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

METROPOLITAN TORONTO TRUST FUNDS

STATEMENT OF CONTINUITY
YEAR ENDED DECEMBER 31, 1986

	Homes for the Aged Residents	Metropolitan Toronto Public Utilities	Edwards Gardens
Balance, beginning of year	$12,339	$ 116	$ 1
Capital receipts			
Cash or collateral received	4,202	25	
Increase/(Decrease) in value of investments	(80)		
Interest earned	1,071	10	
	5,193	35	
Expenditures			
Payments - to or on behalf of Metropolitan Treasurer	2,212		
- to Provincial Courts			
- to or on behalf of area municipalities			
- to or on behalf of residents	3,455		
- to sundry persons		33	
	5,667	33	
Balance, end of year	$11,865	$ 118	$ 1

METROPOLITAN TORONTO TRUST FUNDS

BALANCE SHEET
DECEMBER 31, 1986

Assets			
Cash	$ 762		
Investments (note 1) - Federal	135	$ 91	
- Provincial			
- Other	10,839		
	10,974	91	
Accounts receivable			
Interest receivable on investments	118	9	
Due from Metropolitan Toronto	11	18	$ 1
	129	27	1
	$11,865	$ 118	$ 1
Liabilities			
Accounts payable (note 2)			
Due to Metropolitan Toronto			
Balance - Capital	$11,865	$ 118	$ 1
	$11,865	$ 118	$ 1

DOLLARS IN THOUSANDS

	Transient Traders' License Fees	Keele Valley Small Claims Deposit	Keele Valley Site Post-Closure	Donations	Beare Road Ski Facilities	Police Commission
	$ 3	$ 100	$ 234	$ 81	$ 2,273	$ 244
			187	31		5,629
			22		200	20
			209	31	200	5,649
					56	169
						5,004
				52		
				21		432
				73	56	5,605
	$ 3	$ 100	$ 443	$ 39	$ 2,417	$ 288

DOLLARS IN THOUSANDS

			$ 7		$ 1	$ 288
					675	
			86		278	
			157		1,404	
			243		2,357	
			6		115	19
	$ 3	$ 100	187	$ 39		
	3	100	193	39	115	19
	$ 3	$ 100	$ 443	$ 39	$ 2,473	$ 307
						$ 19
					$ 56	
	$ 3	$ 100	$ 443	$ 39	2,417	288
	$ 3	$ 100	$ 443	$ 39	$ 2,473	$ 307

METROPOLITAN TORONTO TRUST FUNDS

STATEMENT OF CONTINUITY (continued)
YEAR ENDED DECEMBER 31, 1986

	Thackeray Landfill Restoration	Sports Injuries Clinic Equipment	Metropolitan Municipalities' 1984 Liability
Balance, beginning of year	$ 3	$ 3	$ 1,147
Capital receipts			
Cash or collateral received			413
Increase/(Decrease) in value of investments			
Interest earned			116
			529
Expenditures			
Payments - to or on behalf of Metropolitan Treasurer	3		340
- to Provincial Courts			
- to or on behalf of area municipalities			310
- to or on behalf of residents			
- to sundry persons		3	
	3	3	650
Balance, end of year	-	-	$ 1,026

METROPOLITAN TORONTO TRUST FUNDS

BALANCE SHEET (continued)
DECEMBER 31, 1986

Assets	
Cash	$ 16
Investments (note 1) - Federal	270
- Provincial	245
- Other	530
	1,045
Accounts receivable	
Interest receivable on investments	17
Due from Metropolitan Toronto	
	17
	$ 1,078
Liabilities	
Accounts payable (note 2)	$ 52
Due to Metropolitan Toronto	
Balance - Capital	1,026
	$ 1,078

DOLLARS IN THOUSANDS

Metropolitan Municipalities' 1985 Liability	Metropolitan Municipalities' 1986 Liability	Security Deposits and Bonds	General Damages	Bequest Velma E. Francis	Total 1986	Total 1985
$ 1,505	-	$ 1,245	$ 306	$ 32	$19,632	$18,323
716	3,805	134	75		15,217	11,853
					(80)	(306)
167	307		27	3	1,943	1,721
883	4,112	134	102	3	17,080	13,268
367	44		48		3,239	3,402
					5,004	4,048
378					688	562
					3,507	3,096
	525	1,319	19		2,352	851
745	569	1,319	67		14,790	11,959
$ 1,643	$ 3,543	$ 60	$ 341	$ 35	$21,922	$19,632

DOLLARS IN THOUSANDS

$ 43	$ 4				$ 1,121	$ 510
	1,568				2,739	990
419	323				1,351	2,358
1,182	1,540				15,652	12,631
1,601	3,431				19,742	15,979
70					70	2,491
15	122				421	271
		$ 60	$ 341	$ 35	795	579
85	122	60	341	35	1,286	3,341
$ 1,729	$ 3,557	$ 60	$ 341	$ 35	$22,149	$19,830
$ 86	$ 14				$ 171	$ 91
					56	107
1,643	3,543	$ 60	$ 341	$ 35	21,922	19,632
$ 1,729	$ 3,557	$ 60	$ 341	$ 35	$22,149	$19,830

MUNICIPALITY OF METROPOLITAN TORONTO

TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Municipality of Metropolitan Toronto Trust Funds are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments.

(a) Expenditure recognition

Expenditures from Trust Funds, except for claims against the Metropolitan Municipalities' Liability Trust Funds, are recorded on a accrual basis as they are incurred.

Expenditures made by the Metropolitan Municipalities' Liability Trust Funds in settling claims are recorded as paid, with claims settled in January recorded as liabilities. Estimated unsettled claims are not accrued.

(b) Investments

Investments (other than Homes for the Aged Residents' Trust Fund investments) have been recorded at cost adjusted annually for amortization of discount on the basis of the effective annual yield as determined at the date of puchase.

The Homes for the Aged Residents' Trust Fund investments are recorded at market value; a total nominal value of $1 has been placed on unlisted stocks.

2. CONTINGENT LIABILITIES

Metropolitan Municipalities' Liability Trust Funds

The Metropolitan Municipalities' Liability Trust Funds were established to self insure certain losses incurred by the Corporation, its boards, agencies, and commissions (except the Toronto Transit Commission) and the municipalities of East York, Etobicoke, Toronto and York.

Prior to 1986, the Trust Funds settled the first $50,000 of any claim, with the amount in excess of $50,000 being settled by outside insurers. During 1986 and for subsequent years, settlement of claims is financed as follows:

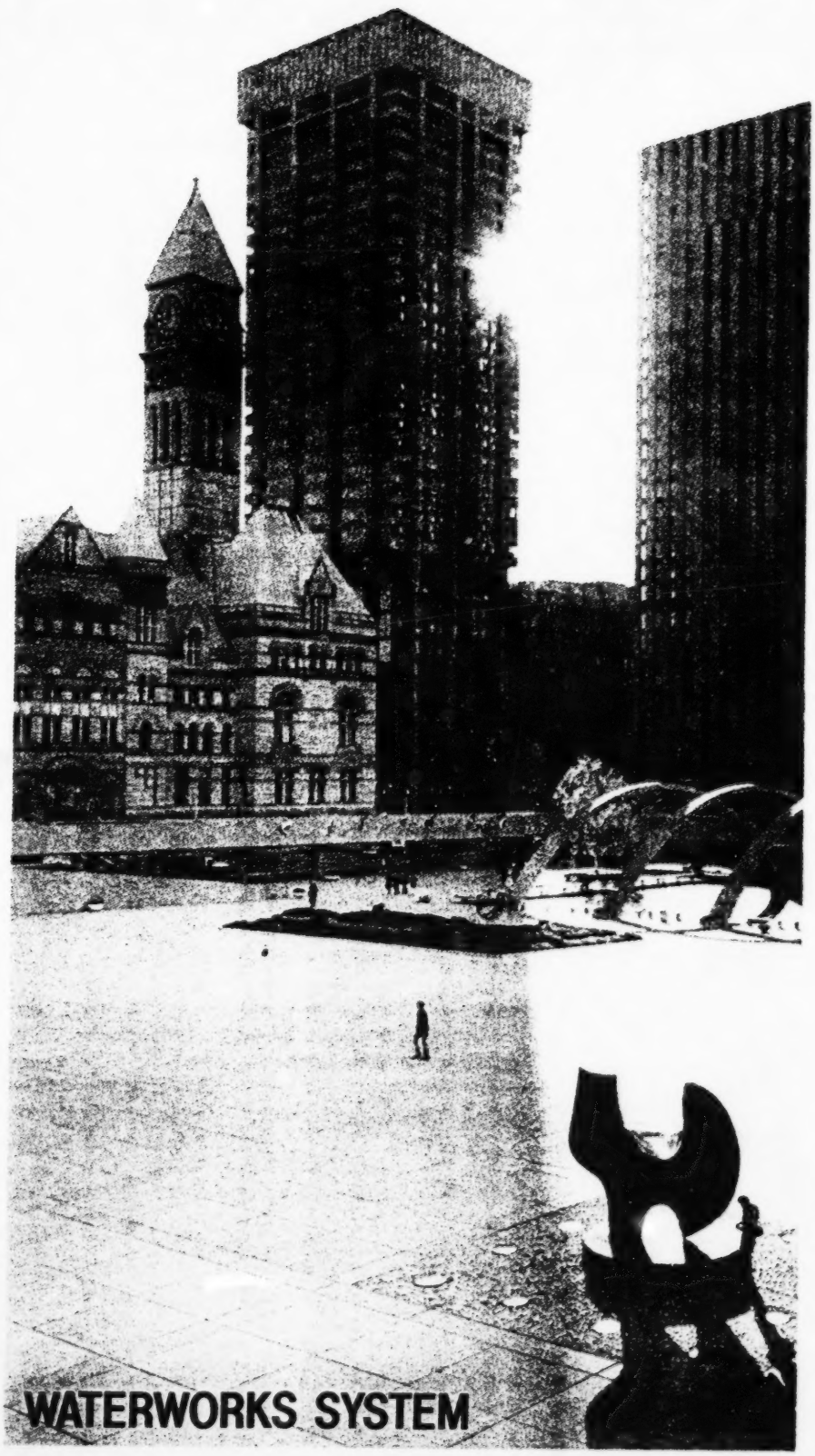
First $10,000	Each individual fund participant
$10,000 - $5,000,000	Trust funds
$5,000,000 - $10,000,000	Outside insurers
$10,000,000 - $100,000,000	Trust funds
Excess of $100,000,000	Each individual fund participant

An actuarial review of the Trust Funds established for the years 1984 and 1985 indicated that the estimated ultimate payout of all claims would exceed the respective fund balances for those years. All claims for any one year are not settled within the same year; the current estimated unfunded liabilities are being funded over the period 1987 to 1989. For the Trust Fund created for 1986 claims, an actuarial review indicates that adequate funds have been provided to meet the estimated ultimate payout of claims. The adequacy of these fund balances are subject to ongoing review.

The estimated ultimate payout of all claims has been provided for by the funding of the present value of those estimates by the participants under the terms of the agreements setting up the Trust Funds. The estimated payout of claims reported and not settled is as follows:

	Estimated Payout of Claims Reported and Not Settled (dollars in thousands)
1984	1,271
1985	2,041
1986	991

The Trust Funds are also contingently liable for claims which have been incurred and not reported for 1984, 1985 and 1986; however, these claims cannot be quantified.


WATERWORKS SYSTEM

The Municipality of
Metropolitan Toronto

Metropolitan Audit Department
7th Floor, 365 Bay Street
Toronto, Ontario, Canada M5H 2V1
Telephone: (416) 392-8030

Allan G. Andrews, C.A., *Metropolitan Auditor*

April 10, 1987

AUDITOR'S REPORT

The Chairman and Members of
The Metropolitan Council of
The Municipality of Metropolitan Toronto

I have examined the balance sheet of the Metropolitan Waterworks System as at December 31, 1986 and the statements of revenue, expenditure and accumulated net revenue, reserves and reserve fund continuity and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Metropolitan Waterworks System as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles for Ontario municipalities applied on a basis consistent with that of the preceding year.

METROPOLITAN AUDITOR

METROPOLITAN WATERWORKS SYSTEM

BALANCE SHEET
DECEMBER 31, 1986

	DOLLARS IN THOUSANDS	
ASSETS	**1986**	1985
Current assets		
Funds on deposit with the Municipality of Metropolitan Toronto	**$ 48,973**	$ 40,722
Accounts receivable - sale of water	**11,565**	11,969
Other receivables (note 2)	**5,601**	6,872
Refundable deposits	**391**	377
Inventories	**403**	167
	66,933	60,107
Investment - easement reserve fund (note 3)	**87**	78
Capital outlay financed by long term liabilities and to be recovered in future years	**56,569**	65,875
	$123,589	$126,060
LIABILITIES AND FUND BALANCES		
Current liabilities		
Due to Municipality of Metropolitan Toronto (note 4)	**$ 24,882**	$ -
Accounts payable and accrued liabilities	**7,017**	6,518
Other (note 2)	**4,727**	5,686
	36,626	12,204
Net long term liabilities (note 5)	**56,569**	65,875
Fund balances at end of year		
Accumulated net revenue (note 4)	**-**	19,719
Unexpended capital financing	**14,037**	15,139
Reserves and reserve fund (note 6)	**16,357**	13,123
	$123,589	$126,060

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

STATEMENT OF REVENUE, EXPENDITURE AND ACCUMULATED NET REVENUE
YEAR ENDED DECEMBER 31, 1986

DOLLARS IN THOUSANDS

	1986 Budget	1986 Actual	1985 Actual
Revenue			
Sale of water	$70,027	$69,791	$75,177
Investment income	3,500	4,286	3,210
Sale of land	3,000	2,055	325
Other	360	400	455
	76,887	76,532	79,167
Expenditure			
Water supply	12,163	12,850	11,147
Power and pumping	14,536	15,208	13,861
Water transmission and distribution	3,973	3,824	3,731
Administration	15,383	15,354	14,223
	46,055	47,236	42,962
Principal payments and interest charges on long term debt	20,061	20,171	25,183
Capital expenditures from current revenue	770	737	2,000
	66,886	68,144	70,145
Net revenue for the year	10,001	8,388	9,022
Transfer to reserves	(3,335)	(3,225)	(8,894)
Accumulated net revenue, beginning of year	19,720	19,719	19,591
Transfer to Municipality of Metropolitan Toronto (note 4)	-	(24,882)	-
Accumulated net revenue, end of year	$26,386	$ -	$19,719

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1986

	DOLLARS IN THOUSANDS	
	1986	1985
Cash generated internally		
Revenue	$ 76,532	$ 79,167
Expenditure before capital financing costs	(47,236)	(42,962)
	29,296	36,205
Increase (decrease) resulting from changes in:		
Accounts receivable - sale of water	404	(861)
Other receivables	1,271	22
Refundable deposits	(14)	(100)
Inventories	(236)	83
Due to Municipality of Metropolitan Toronto	24,882	-
Accounts payable and accrued liabilities	499	3,664
Other liabilities	(959)	(229)
	55,143	38,784
Financing activities		
Contribution from sinking funds	5,686	5,915
Ontario grants	597	1,114
	6,283	7,029
Investment activities		
Capital expenditures	(8,122)	(4,144)
Principal payments and interest charges on long term debt	(20,171)	(25,183)
Transfer to Municipality of Metropolitan Toronto	(24,882)	-
	(53,175)	(29,327)
Increase in cash	8,251	16,486
Cash, beginning of year	40,722	24,236
Cash, end of year	$ 48,973	$ 40,722

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

STATEMENT OF RESERVES AND RESERVE FUND CONTINUITY
YEAR ENDED DECEMBER 31, 1986

	DOLLARS IN THOUSANDS	
	1986	1985
Balance at beginning of year	**$13,123**	$ 4,222
Revenue		
Contributions from current operations	3,335	12,903
Interest earned	9	7
	3,344	12,910
Expenditure		
Transfers to current operations	110	4,009
Balance at end of year	**$16,357**	$13,123

see accompanying notes

METROPOLITAN WATERWORKS SYSTEM

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1986

1. ACCOUNTING POLICIES

(a) Financial administration

The Municipality of Metropolitan Toronto Act requires the Waterworks System to be self-sustaining and to retain any surplus revenues generated from operations. Effective November 18, 1986, by an amendment to the Municipality of Metropolitan Toronto Act, enabling legislation was obtained to permit the use of waterworks system surplus funds for the undertaking or financing of water pollution control works.

The revenues, expenditures, assets and liabilities of the System are accounted for separately from the operations of the Municipality. For administrative convenience, staff of the System are employed by the Municipality, but all employee costs are charged directly to the System. The Municipality also provides working capital, temporary funding for capital works and issues debentures on behalf of the System if or when required. Debt servicing requirements of these debentures are repaid by the System to the Municipality and charged against operating revenues of the System.

(b) Basis of accounting

(i) Revenue and expenditure recognition

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) Charges for long term liabilities

Revenues and expenditures are reported on the accrual basis of accounting with the exception of principal charges on long term liabilities which are charged against operations in the periods in which they are paid.

(iii) Fixed assets

The historical cost and accumulated depreciation of fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Statement of Revenue, Expenditure and Accumulated Net Revenue in the year of acquisition.

(iv) Capital outlay financed by long term liabilities and to be recovered in future years

Capital outlay financed by long term liabilities and to be recovered in future years, which represents the outstanding principal portion of unmatured long term liabilities for capital expenditures, is reported on the Balance Sheet.

(v) Liabilities payable in foreign currencies

Long term debt payable in foreign currencies has been translated into Canadian funds at the exchange rates prevailing at the time the debt was incurred.

(vi) Inventories

Inventories are valued at average cost.

2. SINKING FUNDS SURPLUS MONIES

The Sinking fund balances reflected in the value of net long term liabilities at the end of the year do not include specific accumulations at that date in excess of the total related debt. These accumulations, amounting to $4,727,000 in 1986 (1985 - $5,686,000), are subject to a decision of The Metropolitan Council as to their use for either capital or current purposes. Accordingly, while they have been recorded as receivable, corresponding amounts have been set up as deferred revenue and are included on the Balance Sheet under "Other current liabilities".

3. INVESTMENTS

Investments of $87,000 (1985 - $78,000) are recorded on the Balance Sheet at cost. The market value of these investments at the end of the year approximates cost.

4. TRANSFER OF ACCUMULATED NET REVENUE AS AT DECEMBER 31, 1986

Metropolitan Council on March 3, 1987 approved the transfer of the balance of accumulated net revenue at the credit of the System at December 31, 1986, in the sum of $24,882,000, to a Reserve Fund for Water Pollution Control Measures, under the jurisdiction of the Municipality of Metropolitan Toronto, to be applied to expedite and finance water pollution projects identified in annual budget reviews. The level of this Reserve Fund and future transfers of water supply surplus funds will be subject to ongoing review by Metropolitan Council.

5. NET LONG TERM LIABILITIES

(a) The balance of net long term liabilities reported on the Balance Sheet is made up of the following:

	DOLLARS IN THOUSANDS	
	1986	1985
Principal amount of long term liabilities outstanding	**$142,649**	$159,071
Less value of sinking funds accumulated to retire outstanding long term liabilities	**86,080**	93,196
	$ 56,569	$ 65,875

(b) Net long term liabilities - future redemption

Of the net long term liabilities reported in (a) of this note, $17,067,000 in principal payments are payable from 1987 to 1991, $15,796,000 from 1992 to 1996, and $3,634,000 thereafter.

The difference between the total of principal redemption indicated above ($36,497,000) and the total of net long term liabilities reported in note 5 (a) ($56,569,000) is related to the following two factors:

(i) Long term liabilites payable in U.S. funds have been translated into Canadian funds at the exchange rate prevailing at the times the debt was incurred, whereas the projections of principal redemption above are based on $1 U.S. = $1 Canadian.

(ii) The projections of principal redemption indicated above are based on the premise that actuarial sinking fund deposits (in respect of sinking fund debentures) will earn interest, capitalized yearly thereon, at a rate not exceeding 8% and which will be sufficient to repay such debentures in full at maturity.

(c) Translation of net long term liabilities payable in foreign currencies

Included in the total of $56,569,000 is $36,510,000 of long term debt payable in U.S. funds translated into Canadian funds at the rates of exchange prevailing at the times the debt was incurred. If translated at the exchange rate prevailing at December 31, 1986, the Canadian dollar equivalent of this amount of debt would be increased by $11,431,000.

6. RESERVES AND RESERVE FUND

The total balance of reserves and reserve funds of $16,357,000 (1985 -$13,123,000) is made up of the following:

	DOLLARS IN THOUSANDS	
	1986	1985
Reserves		
Exchange stabilization	**$ 628**	$ 338
Capital financing stabilization	**5,642**	2,707
Water rates stabilization	**10,000**	10,000
	16,270	13,045
Reserve Fund		
Easement	**87**	78
Balance at end of year	**$16,357**	$13,123

a) Capital financing stabilization reserve

Metropolitan Council approved the creation of a Capital Financing Stabilization Reserve, commencing in 1982, for the purpose of stabilizing the contribution of the current fund towards capital expenditure at a level no greater than 50 per cent. of the actual net capital financing requirements for the year. To the extent that the annual provision in the operating budget to finance capital expenditures exceeds this limit, the surplus is transferred to the reserve; conversely, if such annual provision amounts to less than this limit, the Metropolitan Treasurer may draw upon the reserve to meet any shortfall.

b) Reserve for stabilization of water rates

Metropolitan Council, on September 20, 1985, approved the creation of a Reserve for Stabilization of Water Rates, commencing in 1985, for the purpose of absorbing any future potential loss which could be experienced under extremes of adverse weather or operating conditions.

7. LIABILITY FOR PAST SERVICE PROVISION OF PENSION AGREEMENTS

The Metropolitan Waterworks System maintains two pension plans, with most employees participating in these contributory plans that provide pensions based on length of service and final average earnings.

Approximately 56% of the employees of the Waterworks System are members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan, benefits under which are provided in accordance with a defined benefit plan. The amount for which the System is obliged to fund past service cannot be quantified and the cost of pension benefits under this plan is the Waterworks System's required contribution in each year.

The balance of employees are members of the Metropolitan Toronto Pension Plan. Based on projections of emloyees' compensation levels to time of retirement, actuarial estimates indicate that the present value of the unfunded obligations for pension benefits relating to past service in regard to these plans was $1,224,000 as at December 31, 1986 (1985 -$2,054,000). This balance is being funded and charged to operations at the rate of $204,000 per year from 1987 to 1992.

No provision has been made in the accounts for this obligation and the expense is recorded as funded annually. In this regard, expenditure of $294,000 was funded in 1986 (1985 - $290,000) and is reported on the statement of Revenue, Expenditure and Accumulated Net Revenue.

8. LIABILITY FOR VESTED SICK LEAVE BENEFITS

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the employment of the Metropolitan Waterworks System.

The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on terminating, amounted to $1,977,000 (1985 - $1,999,000) at the end of the year.

In order to provide for this past service liability the Metropolitan Waterworks System participates in a Corporate Sick Pay Reserve Fund established by the Municipality of Metropolitan Toronto for this purpose. Contributions to this reserve fund are based on amounts deemed to be sufficient to provide for anticipated payments over a given period of time and, over the next nine years, will be as follows:

	DOLLARS IN THOUSANDS
1987 - 1989	$143
1990 - 1992	143
1993 - 1995	143
	$429

During 1986, the contributions to the reserve fund by the Metropolitan Waterworks System amounted to $52,000. At December 31, 1986, the balance of the Corproate Sick Pay Reserve Fund was $15,557,000 (1985 - $16,215,000).

9. COMPARATIVE FIGURES

Certain of the 1985 figures presented here for comparative purposes have been reclassified to conform with the current year's presentation.